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R 151819Z JAN 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8147
INFO AMEMBASSY BONN
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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 00724

E.O. 11652. GDS
TAGS: ELAB, ENRG, PINT, UK
SUBJECT: COAL BOARD CHAIRMAN, SIR DEREK EZRA, SPEAKS
HIS MIND AND UNCOVERS PUBLIC SECTOR WAGE STRA-
TEGY

SUMMARY - AS THE PRELIMINARY JOCKEYING FOR POSITION
BEGINS FOR THE NEXT WAGE ROUND, SIR DEREK EZRA, CHAIRMAN
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OF THE NATIONAL COAL BOARD (NCB), HAS CONFIDENTIALLY DIS-

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CLOSED TO SOME LONDON-BASED LABOR ATTACHES THE UNANIMOUS WAGE POLICY RECOMMENDATIONS TO THE GOVERNMENT BY 20 UK PUBLIC SECTOR INDUSTRIES. HE DISCUSSED THIS AND SEVERAL OTHER MATTERS, INCLUDING THE STATE OF THE PUBLIC SECTOR, "ITS ENEMIES. WORKERS PARTICIPATION, INDUSTRIAL RELATIONS, AND ENERGY. (HE WAS ACCOMPANIED BY CLIFF SHEPPARD, NCB DIRECTOR OF INDUSTRIAL RELATIONS, AND BY HIS ASSISTANT, ANDREW HORSLER.) END SUMMARY.

1. WAGE POLICY RECOMMENDATION: SIR DEREK DISCLOSED ON A CONFIDENTIAL BASIS THAT THE 20 PUBLIC SECTOR CHAIRMEN HAD UNANIMOUSLY AGREED ON THE FOLLOWING RECOMMENDATIONS TO THE GOVERNMENT: (A) THE FIXED (FLAT RATE) WAGE INCREASE SHOULD BE DISCONTINUED AS THIS WOULD RESULT IN FURTHER DETERIORATION IN DIFFERENTIALS AMONG VARIOUS CATEGORIES OF WMRKERS; (B) PAY INCREASES SHOULD BE LIMITED TO SINGLE FIGURE PERCENTAGE INCREASES, I.E., NO MORE THAN 9 PERCENT; (C) WITHIN PERCENTAGE INCREASE THERE COULD BE FIXED MINIMUM AND MAXIMUM POUND AMOUNT; (D) THE

CURRENT RESTRICTION AGAINST INCREASES TO THOSE EARNING MORE THAN 8,500 POUNDS SHOULD BE WITHDRAWN. SIR DEREK ADDED THAT THE NCB (WHICH HAS BEEN TRYING TO GET THE MINERS TO AGREE TO A MORE EFFECTIVE PRODUCTIVITY SCHEME) HAD PRESSED THE OTHER CHAIRMEN TO AGREE TO RECOMMEND PROVISIONS FOR PRODUCTIVITY AGREEMENTS IN THE NEXT PAY POLICY BUT UNANIMOUS AGREEMENT WAS NOT POSSIBLE.

2. PUBLIC SECTOR INDUSTRY AND THE NCB: SIR DEREK SAID THAT OF THE 20 PUBLIC SECTOR INDUSTRIES THERE WERE ONLY THREE IN SERIOUS DIFFICULTY -- POST OFFICE, STEEL AND TRANSPORT. THE NCB IS ACHIEVING VERY SATISFACTORY RESULTS AND WAS NOW BREAKING EVEN. IT IS, HE SAID. ONE OF THE FEW INDUSTRIES PLANNING INVESTMENT, DEVELOPMENT AND REORGANIZATION TWENTY-FIVE YEARS AHEAD. IT IS RECRUITING MORE WORKERS AND EVEN WITH A NUMBER OF UNECONOMIC PITS IS SHOWING AN OPERATING PROFIT. HE ACCEPTED THE FACT THAT OIL INCREASES HAVE BEEN A MAJOR CONTRIBUTING FACTOR. (THE NCB, HE SAID, HAD SHOWN A LOSS OF 140 MILLION POUNDS IN 1973 BUT THIS WAS REDUCED TO 2.4 MILLION POUNDS IN CONFIDENTIAL

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1974.) THE NAB WANTS TO BECOME INDEPENDENT OF GOVERNMENT AID IN ANY FORM AND HAS NOW ALMOST ACHIEVED THIS GOAL. GOVERNMENT ASSISTANCE IS ONLY ABOUT 30 PENCE PER TON IN CONTRAST TO THE SITUATION IN GERMANY WHERE THE COAL INDUSTRY, IN THEORY INDEPENDENT AND PRIVATELY OWNED, RECEIVES ABOUT 6 TO 7 POUNDS PER TON GOVERNMENTAL AID IN ONE FORM OR ANOTHER.

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3. "ENEMIES" OF THE PUBLIC SECTOR: SIR DEREK SAID THAT THE PUBLIC SECTOR NORMALLY HAS "THREE ENEMIES" -- THE GOVERNMENT, THE PRESS, AND THE TRADE UNIONS. WHILE THE GOVERNMENT APPEARS TO BE COMING AROUND -- BY MOVING TOWARD A NEUTRAL POSITION -- THE PRESS AND THE TRADE UNIONS REMAIN THORNS IN HIS SIDE. HE SAID HE NEVER SAW A GOVERNMENT SO CAPABLE OF DEFEATING ITS OWN PURPOSES AS THE LAST HEATH GOVERNMENT. HE INSISTED THAT HAD THAT GOVERNMENT ALLOWED THE NCB AND THE NATIONAL UNION OF MINERS (NUM) TO SORT OUT THEIR OWN PROBLEMS DURING THE 1973-4 MINERS' DISPUTE, THE GOVERNMENT WOULD NOT HAVE FALLEN. (COMMENT: ARGUMENT ABOUT WHO OR WHAT BROUGHT DOWN THE CONSERVATIVE GOVERNMENT IN 1973 WILL CONTINUE TO RAGE FOR SOME TIME TO COME, AND THERE ARE SOME OBSER-

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VERS WHO BLAME SIR DEREK FOR THE WAY HE HANDLED HIS SIDE OF THE NEGOTIATIONS.)

4. SIR DEREK WAS EXTREMELY CAUSTIC ABOUT THE ROLE OF THE PRESS. HE SAID HE REALIZED THAT SENSATIONALISM SOLD NEWSPAPERS. BUT REPORTING ON ALMOST EVERY IMPORTANT NA-
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TIONAL ISSUE (INCLUDING INDUSTRIAL RELATIONS) HAS BEEN LURID, BIASED AND PROVOCATIVE. AS FOR THE TRADE UNIONS, HE BELIEVES THAT THE NCB WILL ALWAYS HAVE ITS SHARE OF PROBLEMS WITH THE UNIONS UNTIL WORKERS BECOME MORE IN-VOLVED IN MANAGEMENT. HE SAID THAT INITIATIVES IN THIS DIRECTION HAVE COME FROM THE NCB, BUT THAT THE NUM WANTS NOTHING TO DO WITH WORKER PARTICIPATION. (HOWEVER, SIR DEREK WOULD NOT BE PINNED DOWN TO ANY FORMULA SUCH AS THE TUC'S CURRENT PROPOSAL CALLING FOR A 50 PERCENT MEM-BERSHIP BY WORKER REPRESENTATIVES ON THE BOARDS OF BRI-TISH COMPANIES. HE LEFT THE IMPRESSION THAT HE WAS MORE CONCERNED ABOUT WORKERS SHARING RESPONSIBILITY RATHER THAN POWER.)

5. ENERGY ISSUES: SIR DEREK WAS CRITICAL OF CERTAIN GOVERNMENT DECISIONS WHICH ALLOWED THE GOVERNMENT TO "PIRATE" SOME OF NCB ASSETS IN THE NORTH SEA AREA FOR THE NEW BRITISH NATIONAL OIL COMPANY (BNOC). HE ALSO NOTED THAT BNOC HAS DISCRETIONARY POWER TO PURCHASE UP TO 51 PERCENT SHARE OF ANY COMPANY'S OPERATIONS IN NORTH SEA, EVEN THOUGH THIS WOULD LIKELY TAKE PLACE ONLY IN CASE OF SMALL COMPANIES NOW QUEUING AT THE BNOC DOOR BE-CAUSE OF THE CASH FLOW CRISIS ARISING FROM INCREASED EX-PLOITATION COSTS. BUT EVEN IN THESE CASES, HE ADDED, BNOC WOULD BE VERY PRUDENT IN WHAT IT PURCHASES. (COM-MENT: AS TO SIR DEREK'S COMMENT ABOUT MAJORITY STATE PARTICIPATION IN NORTH SEA OIL BEING APPLICABLE ONLY TO SMALLER COMPANIES, THIS EMBASSY BELIEVES THIS REFLECTS HIS OWN PERSONAL ASSESSMENT AND IS NOT A STATEMENT OF EXISTING HMG POLICY.)

6. SIR DEREK WAS ALSO VERY CRITICAL OF GERMAN ENERGY

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POLICY PARTICULARLY THE DECISION TO USE NATURAL GAS TO GENERATE ELECTRICITY. HE CLAIMED THIS IS A VERY INEFFICIENT USE OF HIGH QUALITY GAS WHEN COAL COULD BE USED TO GENERATE ELECTRICITY. THE NCB HAS PREPARED A PAPER, HE SAID, WHICH CLAIMS UK COULD SAVE UP TO 250 MILLION POUNDS IN OIL IMPORTS BY BURNING AN EXTRA FOUR MILLION TONS OF COAL IN 1976-7 AND SEVEN MILLION TONS THE FOLLOWING YEAR.

7. THE GENERAL STATE OF THE ECONOMY: SIR DEREK APPEARS
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TO BE HIGHLY SATISFIED ABOUT THE PROSPECTS FOR THE UK ECONOMY. HE BASES THIS FEELING ON THE FOLLOWING FACTORS: (A) EC REFERENDUM VOTE WAS A CLEAR INDICATION THE COUNTRY IS NOT PREPARED TO SUPPORT THE EXTREME LEFT; (B) THE RATE OF DOMESTIC INFLATION IS DECREASING AND THE GOVERNMENT'S PAY POLICY IS SHOWING ITS EFFECTIVENESS; (C) THE UK BALANCE OF PAYMENTS POSITION IS IMPROVING; (D) WORLD ECONOMIC RECOVERY WILL PRECEDE BRITISH RECOVERY AND IMPROVE PROSPECTS FOR UK EXPORTS; (E) ECONOMIC RECOVERY WILL BEGIN AT THE END OF 1976 AND (F) THE GOVERNMENT RECOGNIZED THE NEED TO PUT INVESTMENT INTO INDUSTRY AHEAD OF SOCIAL GOALS. THIS IS A UNIQUE POSITION FOR ANY LABOR GOVERNMENT TO TAKE AND A VERY SIGNIFICANT MOVE IN THE RIGHT DIRECTION. (HE WAS CONFIDENT, MOREOVER, THAT NATIONAL ENTERPRISE BOARD UNDER LORD RYDER WOULD OPERATE ESSENTIALLY ON A COMMERCIAL BASIS.)

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8. COMMENT: FROM NOW ON, WE SHALL BE HEARING QUITE A BIT ABOUT WHAT UNIONS, INDUSTRY, THE GOVERNMENT, AND OTHER GROUPS THINK SHOULD BE PART OF THE NEXT WAGE PACK-AGE. DENIS HEALEY, CHANCELLOR OF THE EXCHEQUER, REPOR-TEDLY STATED ON WEDNESDAY (JANUARY 15) THAT "WE MUST CON-
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TINUE CUTTING THE RATE OF INFLATION IN THE NEXT WAGE ROUND AND THAT MEANS WE MUST HAVE A LOWER PERCENTAGE IN-CREASE IN WAGES AS A WHOLE." HEALEY DID NOT THINK THAT A SIMPLE FLAT RATE SUM WOULD BE FEASIBLE NEXT TIME. JACK JONES HAS ALSO INDICATED TO US PRIVATELY THAT A COMBINATION OF PERCENTAGES AND FLAT RATE SCHEME IS THE MOST LIKELY TO EMERGE EVENTUALLY. JONES TOLD US PRIVA-TELY HE IS ALSO THINKING ABOUT OTHER VARIATIONS SUCH AS THE ACCEPTANCE OF A LOWER FLAT RATE PROVIDED THAT IT COULD BE APPLIED ALSO TO OVERTIME RATES -- SOMETHING NOT ALLOWED IN THE CURRENT PAY POLICY. IN ANY EVENT, THE DEBATE IS JUST BEGINNING AND WILL BE TAKEN UP BY EACH UNION IN ITS VARIOUS CONFERENCES BEGINNING THIS SPRING AND CONTINUINE THROUGH THE SUMMER, AND FINALLY BY THE TUC CONGRESS IN SEPTEMBER. MANAGEMENT WILL ALSO BE

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ZEROING IN DURING THE EARLY SKIRMISHES.

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